

Student workpoint 14.3**Be a thinker**

Read the short text below and answer the questions that follow.

Use the data from the text to support your answers.

Mexico's Consumer Confidence on the Rise

Consumer confidence among Mexicans rose in June to its highest level since prior to the global economic crisis in 2008, the National Statistics Institute said Monday.

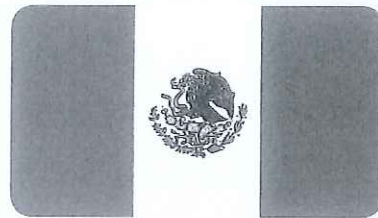
The June (2010) survey put consumer confidence at 87.5 points versus 84.6 points in May, said the institute. The index was at 81 points in June 2009. It reached its lowest level of 77 points in October 2009.

The survey consists of five questions: two about the household financial situation, two concerning the overall economy in the present and future and one question concerning consumers' ability to purchase durable goods.

In June 2009 Mexico was at the low of the 2008-2009 recession, in which gross domestic product dipped 10% at its weakest point. The economy was also badly hurt by the outbreak of the A/H1N1 influenza virus, which scared off tourists and caused authorities to close restaurants, clubs and other public venues in some cities.

GDP began its recovery late in the second quarter of 2009 and showed its first year-on-year growth in the first quarter of this year (2010), rising 4.3%.

While consumer confidence has shown an overall gain in the last eight months, it remains below the levels of 2008, when it started the year above 100.



Labour Minister Javier Lozano recently said that the formal labour market over the past year has recovered almost to pre-crisis levels. During the crisis many people sought work in the informal economy, such as selling goods on the street, which tends to give them less job security and therefore less consumer confidence. With this improvement in the formal labour market some optimism is returning.

- 1 Using numbers from the text, explain the difference in consumer confidence in Mexico from:
 - a May 2010 to June 2010
 - b June 2009 to June 2010
 - c June 2009 to October 2009
 - d 2008 to 2010 (approximately).
- 2 Why do you think that the Mexican survey asks a separate question about consumers' willingness to buy durable goods. Use a definition of durable goods in your answer.
- 3 Using a diagram, explain how the change in consumer confidence from 2009 to 2010 might be expected to affect Mexican AD.
- 4 Suggest reasons for the change in consumer confidence from 2009 to 2010.

Student workpoint 14.4**Be an inquirer**

Consumption makes up most of the aggregate demand in most countries. Consider the national income data in workpoint 13.1 and note the percentage of aggregate demand that comes from consumption in Canada. You will find that this is rather typical of the developed countries. Investigate the distribution of AD for the country that you chose in workpoint 13.2.

"The entire world economy rests on the consumer; if he ever stops spending money he doesn't have on things he doesn't need—we're done for."

Bill Bonner

The type of trade policies that a country adopts will affect its level of import spending. If a country decides to adopt a more liberalised trade policy by, say, reducing tariffs (taxes) on imports, then import expenditure would be expected to rise. However, if a more protectionist set of policies were to be adopted then import expenditure would fall, *ceteris paribus*.

If the inflation rates of trade partners were to vary notably then this might also affect the level of import spending as noted above.

Thus, net exports (the difference between export revenues and import expenditure) depends on domestic national income (affecting the demand for imports), foreign national incomes (affecting the demand for exports), changes in exchange rates, changes in trade policies, and relative inflation rates. We spend much more time discussing changes in trade policies and exchange rates in later chapters.

Student workpoint 14.6

Be knowledgeable

Situation favourable in Germany, but the outlook is not bright

"For years Germany lagged the rest of the eurozone", says Wirtschaftswoche. "Now we're leading it." Analysts reckon that German **GDP** grew by up to 1.5% in the second quarter alone. That's an annualised rate of 6%—twice the figure expected for America this year.

The rebound in **aggregate demand** is being driven by exports, which account for a comparatively hefty 40% of GDP. They jumped by 9.2% month-on-month in May, an annual rate of 22.9%, the strongest growth since the early 1990s. IHS Global Insight expects exports to climb by 10% this year, compared to 6%–7% in other major European economies. Germany's high-end capital goods are especially sought-

after in booming emerging economies. There, Germany has a stronger presence than its European rivals.

With exports and now domestic investment picking up, the labour market is improving. The unemployment rate is at an 18-month low of 7.7%. The missing piece of the puzzle is consumption. So far, at least, households have shown little inclination to open their wallets. Retail sales are still 2.4% below last year's recession-hit levels. Consumer confidence is also under its long-term average.

Wage growth is also slow, due to the previous rise in unemployment, and fiscal tightening is on the way next year. Given all that, analysts

argue that the outlook for consumer spending is not encouraging.

Domestic demand is "the Achilles' heel of the German recovery", says one analyst. The trouble is that the global outlook is deteriorating as company restocking slows and government fiscal stimulus programmes fade. The deepening mess in the eurozone periphery doesn't help either. The eurozone still accounts for 45% of Germany's exports.

The German economy is highly geared to global growth. And with growth everywhere slowing, it looks likely to struggle over the next few months.

Source: Adapted from *Money Week*, July 16, 2010

1 Define the following terms identified in bold in the text:

a GDP

b Aggregate demand.

2 Explain why "Germany's high-end capital goods are especially sought-after in booming emerging economies"?

3 Using information from the text, try to explain changes to any of the components of AD.